

NORTH DAKOTA'S TRUST LANDS

Legendary

Breaking Every Record with more revenue to Schools from Bonus Bids than the Prior 39 years



Quick Facts on North Dakota's Trust Lands

FY 2010 Revenue \$446 million

Acreage

Surface	0.7 million acres
Mineral	3.3 million

Permanent Funds

\$1.3 BILLION
14.48% total return



What an incredible record-breaking year for the North Dakota State Land Department in Fiscal Year 2010. In just this one year the Land Department collected as much in oil and gas bonuses as the prior 39 years combined. What a difference can be made in revenue with the discovery, exploration, and production from one significant oil play—the Bakken Three Forks. Recent technological advances that allow recovery from tight formations like shale have allowed North Dakota to become one of the hottest drilling locations in the nation.

The North Dakota State Land Department, under the leadership of State Land Commissioner Lance Gaebe, manages three-fourths of a million acres of surface land—an area equivalent to the state of Rhode Island-- but more importantly over 2.6 million acres of mineral rights for the benefit of specific institutions. These lands were granted in trust by Congress as a condition of statehood. The beneficiaries include public schools, special schools for the deaf and blind, state universities and colleges, the state mental hospital and the state's veterans' home.

All revenues are prudently invested to provide funding forever from resources like oil and gas that can only be produced once. By the end of September 2009, these permanent trust funds collectively broke the \$1 billion mark, and 9 months later they were well on the way to their second billion—finishing FY2010 at \$1.3 BILLION invested and earning a 14.48% total

return during the fiscal year. By statute, these funds must be invested under the Prudent Investor Rule, requiring the Board of University and School Lands to exercise the same judgment and care that an institutional investor would, "considering probable safety of capital as well as probable investment returns." This Board is comprised of the Governor, the Superintendent of Public Instruction, the State Treasurer, the Attorney General and the Secretary of State.

By far the greatest revenue source was oil and gas bonuses, followed by net gains on investments from the permanent funds. The third greatest revenue source was production royalty. Mineral royalty generated \$88.4 million in this one year alone. The royalty rate on new oil and gas leases is 16.67% of its value at the wellhead. This is similar to other oil and gas producing states like Texas, New Mexico, and Utah.

Surface revenue was derived primarily from grazing and agriculture and generated another \$6 million. Ninety-seven percent of all surface trust land is leased for grazing. There is no set grazing fee in North Dakota as all leases are offered at public auction at least once every five years. Minimum opening bids are calculated using private market rents as their basis for value. Adjustments are made for fencing, noxious weeds, and soil quality. Agriculture adds another half million dollars from production on 20,000 acres, with agricultural fees being determined at public auction as well.

The North Dakota constitution does not allow leasing for commercial, industrial, residential or conservation purposes. There is no revenue from timber sales either, but the trust is compensated by the revenue from the Bakken shale production.





FY 2010 Revenue of \$446 million from:

Mineral Revenue	\$265 million
Interest, dividends, realized/unrealized capital gains, unclaimed property	
tobacco settlement, & oil extract. tax	\$175 million
Surface uses & grazing on 737,000 acres	\$ 6 million
Commercial, Industrial Leasing	- Not allowed
Residential Leasing	- Not allowed
Conservation Leasing	- Not allowed

All expenses are deducted from income before it is invested or distributed. In addition to the trust revenue, the Common School Trust Fund received \$2 million from unclaimed property collections, \$12 million from tobacco lawsuit proceeds, and \$28 million from oil extraction tax. As the Common School Trust Fund grows, it generates greater and greater amounts to support schools—relying less on taxpayers.

As in other western states, the greatest threats to the trusts come from federal sources such as the cap and trade legislation and Environmental Protection Agency regulation of the hydraulic fracturing process. There are also very significant opportunities with the Bakken/Three Forks oil play. Estimates of reserves indicate that there may be as much as 500,000 barrels per day in production in future years.

